

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 INRE-00 SSO-00 NSCE-00 USIE-00

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PRS-01 SP-02 SS-15 AID-05 COME-00 EB-07 FRB-03

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 9400

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY MOSCOW

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

USMISSION NATO

DIA WASHDC

USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 8353

DEPT PASS COMMERCE AND TREASURY

E.O. 11652: GDS

TAGS: PFOR PINT ECON ELAB OVIP OTRA PO

SUBJECT: SECRETARY RICHARDSON'S MEETING WITH PM SOARES

BEGIN SUMMARY: IN WIDE-RANGING, FRANK DISCUSSION WITH COMMERCE  
SECRETARY RICHARDSON, PM SOARES OUTLINED PORTUGAL'S PAST  
AND PRESENT PROBLEMS AS WELL AS HIS GOVERNMENT'S PLANS  
FOR THE FUTURE. NOTING THAT THE COMMUNISTS HAD TRIED,  
FAILED, AND WERE STILL TRYING TO TAKE OVER PORTUGAL,  
SOARES STATED THAT ONE OF HIS CHIEF TASKS WAS TO  
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COMBAT PAST AND PRESENT COMMUNIST WRECKING TACTICS.

HE ACKNOWLEDGED THAT THE LABOR SCENE REMAINED DARK, ALTHOUGH THE GOP HAS PLANS FOR A FUTURE OFFENSIVE. ON THE WHOLE, HOWEVER, SOARES BELIEVED THERE WERE SIGNS JUSTIFYING CONFIDENCE: THE POLITICO-MILITARY SITUATION IS STABLE; LONG-RANGE, ECONOMIC-RECOVERY EFFORTS ARE UNDER WAY; PRODUCTIVITY IS IMPROVING AND ABSENTEEISM IS BEING CUT DOWN. IN DRAWING UP THE BALANCE SHEET, SOARES STRESSED THE ASSISTANCE THE GOP HAS RECEIVED FROM ITS FRIENDS AND ALLIES IN WESTERN EUROPE AND THE U.S. COMMENTING ON CURRENT GOP-USG NEGOTIATIONS FOR ECONOMIC ASSISTANCE, SOARES WAS HOPEFUL THAT--IF SUCCESSFUL--THEY WOULD ESTABLISH A FIRM BASE FOR PORTUGAL'S ECONOMIC RECOVERY. IN THIS CONNECTION, HE STRESSED THAT THE GOP WELCOMES FOREIGN INVESTMENT. END SUMMARY.

1. COMMERCE SECRETARY ELLIOT RICHARDSON, ACCOMPANIED BY DEPUTY ASSISTANT SECRETARY KATZ AND AMBASSADOR SPENT APPROXIMATELY ONE HOUR WITH PRIME MINISTER MARIO SOARES, DECEMBER 2.

2. AT OUTSET SECRETARY RICHARDSON CONVEYED PRESIDENT FORD'S GREETINGS AND HOPES THAT GOP WILL DEAL SUCCESSFULLY WITH THE DIFFICULT ECONOMIC ISSUES IT FACES. THE SECRETARY ALSO EXPRESSED THE PRESIDENT'S ADMIRATION, AN ADMIRATION SHARED BY MOST AMERICANS, FOR SOARES' COURAGE AND LEADERSHIP IN CREATING A DEMOCRATIC SYSTEM IN PORTUGAL. HE NOTED WE FEEL STRONGLY THAT THIS SYSTEM MUST SUCCEED AND WANT TO HELP. THE SECRETARY SAID HE WAS AWARE OF THE DIALOGUE BETWEEN USG AND GOP ON MEDIUM-TERM LOANS AND ITS ACCOMPANYING ECONOMIC PROGRAM. HE THOUGHT NEVERTHELESS IT WOULD BE USEFUL TO RECEIVE A FIRST-HAND ANALYSIS OF THE SITUATION FROM THE PRIME MINISTER IN ORDER TO COMMUNICATE IT DIRECTLY TO THE PRESIDENT AND TO HIS SUCCESSOR.

3. CREATING A DEMOCRACY: SOARES THANKED THE SECRETARY AND NOTED IT WAS VERY HARD TO TAKE THE FIRST STEPS IN CREATING A DEMOCRACY. MEASURES TAKEN ONE DAY SEEM TO BE UNDONE THE NEXT. THE GOVERNMENT IS CONFRONTED WITH CONFIDENTIAL

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ATTACKS FROM LEFT AND RIGHT BUT IS TRYING TO "EXPLOIT" THE BOMBS PLACED UNDER ITS FEET WITHOUT EXPLODING THEM. HE ASSURED SECRETARY RICHARDSON THAT THE GOP HAD THE DETERMINATION AND THE COURAGE TO INSTITUTIONALIZE DEMOCRACY IN PORTUGAL AND TO CHART A COURSE OF ECONOMIC RECOVERY. ANY ANALYSIS OF THE PRESENT SITUATION, SOARES SAID, MUST START WITH THE FACT THAT THE COMMUNISTS TRIED TO TAKE OVER PORTUGAL, AND THAT THEIR

EFFORTS HAVE NOT ENDED. IN THIS THEY HAVE BEEN AIDED BY THE USSR. THEIR ATTEMPT AT TAKEOVER WAS IMPLEMENTED THROUGH A CONSCIOUS POLICY OF DESTROYING PORTUGAL'S ECONOMIC INFRASTRUCTURE. THIS POLICY ENTAILED NATIONALIZATIONS, OCCUPATIONS OF LARGE LANDHOLDINGS, AND DIABOLIC CREDIT POLICIES DESIGNED TO FORCE NON-NATIONALIZED COMPANIES INTO BANKRUPTCY, THEREBY CREATING THE CONDITIONS FOR STATE INTERVENTION. THESE EFFORTS TOUCHED VIRTUALLY EVERY COMPANY IN THE COUNTRY TO A GREATER OR LESSER DEGREE.

4. INFILTRATION OF THE GOVERNMENT: THE OTHER PRONG OF THE COMMUNIST OFFENSIVE WAS THE INFILTRATION OF COMMUNISTS INTO STRATEGIC POINTS IN THE MILITARY AND CIVILIAN GOVERNMENTAL STRUCTURE, IMMOBILIZING THE BUREAUCRATIC MACHINERY. THE MOST SERIOUSLY PENETRATED AGENCIES WERE THE MINISTRIES OF AGRICULTURE, EDUCATION AND FINANCE. THE GOVERNMENT IS NOW FACED WITH THE TASK OF WEEDING OUT PEOPLE WHO OBEY NOT THE GOVERNMENT BUT THE PCP.

5. FOREIGN CAPITAL: CURIOUSLY ENOUGH, SOARES SAID, FOREIGN CAPITAL WAS NOT ATTACKED DURING THIS PROCESS. THIS IS BECAUSE THE COMMUNISTS RESERVED FOREIGN CAPITAL FOR THE SECOND PHASE. THEIR FIRST GOAL WAS TO ASSUME POWER, AND THEY DID NOT WISH TO CREATE PROBLEMS WITH FOREIGN BANKS AND MULTINATIONALS. OF COURSE, SOME DISTURBANCES TOOK PLACE IN MULTINATIONALS, BUT FOREIGN CAPITAL AS SUCH WAS NOT SINGLED OUT.

6. GOP'S CURRENT EFFORTS: SOARES SAID THE SITUATION TODAY HAS TURNED AROUND. THE GOP BUREAUCRATIC MACHINERY IS STILL IN DESARRAY BUT IT IS AT LEAST CONFIDENTIAL

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BEGNNING TO FUNCTION. COMMUNISTS ARE BEING WEEDED OUT OF CRITICAL JOBS. A PATH HAS BEEN CHARTED FOR ECONOMIC

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 8353

DEPT PASS COMMERCE AND TREASURY

RECOVERY. OF COURSE, THE COMMUNIST OFFENSIVE WAS BASED ON A DEMAGOGIC POLICY OF FOMENTING UNREALISTIC WORKER DEMANDS. THIS IN TURN LED TO THE DEPLETION OF PORTUGAL'S GOLD AND FOREIGN EXCHANGE RESERVES IN A "FURY OF CONSUMPTION, ACCOMPANIED BY A DROP IN PRODUCTIVITY AND ZERO INVESTMENT." ADD TO THIS, SOARES SAID, THE FACT THAT MANAGEMENT IN PORTUGAL HAS NEVER BEEN COMPETITIVELY ORIENTED, THAT IT HAS ALWAYS LOOKED TO THE STATE TO SOLVE ITS PROBLEMS, THE LOSS OF THE COLONIES AND THE INFLUX OF 600,000 REFUGEES--AND YOU HAVE CONFIDENTIAL

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A PICTURE OF THE DIFFICULT SITUATION FACED BY THE GOP.

7. FAVORABLE SIGNS: IN SPITE OF THESE NEGATIVE ASPECTS, SOARES NOTED, THE GOP HAS RESTORED A CERTAIN AMOUNT OF CONFIDENCE AND HAS SET DIRECTIONS FOR ECONOMIC RECOVERY. THIS CANNOT BE DONE IN A YEAR. THE GOP PLAN IS A FOUR-YEAR PLAN WHICH REQUIRES THE CONTINUED SUPPORT OF

PORTUGAL'S ALLIES, PARTICULARLY THE US AND WESTERN EUROPE. IT ALSO IMPLIES FULL INTEGRATION INTO THE EUROPEAN COMMUNITY. PRODUCTIVITY IS MOVING FORWARD AND ABSENTEEISM IS DOWN. IN THE GIANT LISNAVE SHIPYARD, FOR EXAMPLE, ABSENTEEISM HAS DROPPED FROM 25 PERCENT TO 11 PERCENT. OTHER LARGE COMPANIES ARE EXPERIENCING THE SAME PHENOMENON. PORTUGAL HAS ALSO SUCCEEDED IN ABSORBING THE ANGOLAN REFUGEES WHO ARE NO LONGER A SOURCE OF SOCIAL UNREST AND PRESSURE ON THE GOP.

8. POLITICO-MILITARY SITUATION: SOARES

SAW THE POLITICO-MILITARY SITUATION AS STABLE. "THERE ARE NO IMMEDIATE DANGER POINTS." HE WAS ALSO OPTIMISTIC ON THE FORTHCOMING ELECTION RESULTS. HE FELT THE SOCIALISTS WOULD DO WELL IN SPITE OF UNPOPULAR POLICIES, SUCH AS A VIRTUAL FREEZE ON SALARIES ACCOMPANIED BY COST OF LIVING INCREASES. MOREOVER, THE GOVERNMENT HAD OBLIGED PEOPLE TO WORK, HAD RESTORED THE AUTHORITY OF THE STATE, AND WAS CLOSING IN ON THE COMMUNIST "EMPIRE" IN THE ALENTEJO. IN THIS CONNECTION THE MINISTER OF AGRICULTURE WOULD ANNOUNCE ON DECEMBER 8 A COMPREHENSIVE PLAN TO WREST THE ALENTEJO FROM THE COMMUNISTS. THIS WOULD BE ACHIEVED ESSENTIALLY BY CUTTING OFF THE SUPPLY OF GOVERNMENT CREDIT THAT HAS BEEN GOING TO COMMUNIST COOPERATIVES.

9. LABOR: SOARES CONCEDED THAT A DARK SPOT IN THIS PICTURE WAS THE ADVANCE OF THE COMMUNISTS IN THE UNION AREA. THE GOVERNMENT EXPECTED TO RECOVER SOME GROUND WITH ITS RECENT MEASURE ABOLISHING THE EMPLOYER CHECK-OFF FOR UNION DUES. AFTER THE ELECTION THE GOP INTENDS TO ANNOUNCE A MORE COMPREHENSIVE PLAN FOR DEALING WITH THE UNION PROBLEM. ASKED TO ELABORATE ON THESE PLANS, THE PRIME MINISTER SPOKE IN CONFIDENCE ABOUT THE CREATION

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OF A SEPARATE CONFEDERATION FROM INTERSINDICAL. THIS NEW FEDERATION WOULD BE SUPPORTED BY A COALITION OF THE SOCIALISTS AND THE CHURCH. THE FIGHT AGAINST THE COMMUNISTS ALL ALONG HAD ENTAILED A PS ALLIANCE WITH THE CHURCH, AND THE RECENT DECLARATION BY THE BISHOP OF OPORTO ON WORKER RESPONSIBILITIES WAS NOT A COINCIDENCE.

10. ALLIANCE WITH PSD/PPD: THE FORTHCOMING OFFENSIVE IN THE UNION AREA MEANT THAT THE PS MUST CONTINUE TO AVOID AN ALLIANCE WITH THE CENTER-RIGHT PARTIES, SPECIFICALLY THE PSD/PPD. THE PPD, SOARES NOTED, DOES NOT UNDERSTAND THIS, AND IT IS PERHAPS UNFAIR BUT MANY WORKINGMEN CONSIDER THE PPD A PARTY OF THE RIGHT.

IF THE SOCIALISTS WERE TO FORM A COALITION WITH THE PPD, THIS WOULD PLAY INTO THE HANDS OF THE COMMUNISTS. THE SITUATION COULD CHANGE IN A YEAR BUT RIGHT NOW A COALITION IS IMPOSSIBLE. SOARES NOTED THAT MANY PEOPLE ABROAD DO NOT UNDERSTAND THIS. HE COMPARED THE PORTUGUESE SITUATION TO ITALY WHERE, OVER A PERIOD OF YEARS, SOCIALIST COOPERATION WITH THE CHRISTIAN DEMOCRATS HAD ENABLED THE PCI TO WIN THE SUPPORT OF THE WORKERS AND HAD SPLIT ITALIAN SOCIALISM.

11. FOREIGN SUPPORT: SOARES UNDERScoreD THE IMPORTANCE OF THE SOLID INTERNATIONAL SUPPORT WHICH THE GOVERNMENT HAD RECEIVED. HE CITED NORWEGIAN, GERMAN AND U.S. SUPPORT. IF THE GOP'S NEGOTIATIONS WITH THE US ARE CARRIED THROUGH TO A SUCCESSFUL CONCLUSION, HE SAID, THE GOVERNMENT WILL BE ABLE TO FACE ITS PROBLEMS FREE FROM IMMEDIATE FINANCIAL CONCERNS, AND WILL BE ABLE TO ESTABLISH A FIRM BASE FOR LONG-TERM ECONOMIC RECOVERY. HE NOTED THAT THIS RECOVERY WOULD BE ACCOMPANIED BY SIZEABLE CUTS IN THE BUDGET, BY AUSTERITY MEASURES, AND BY STEPS TO STIMULATE EXPANSION. THE PROGRAM HAD TO BE LOOKED AT IN TERMS OF YEARS, NOT MONTHS. VIEWED IN THIS LIGHT HE THOUGHT "PORTUGAL COULD FIND ITS WAY OUT OF THE TUNNEL AND STILL MAINTAIN DEMOCRACY." THE ALTERNATIVE, HE NOTED, IS A DICTATORSHIP OF THE LEFT OR THE RIGHT. EITHER WOULD BE DISASTROUS NOT ONLY FOR PORTUGAL BUT FOR EUROPE. WESTERN EUROPE  
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COULD NOT TOLERATE A CUBA, NOR COULD IT SUPPORT A RIGHTIST DICTATORSHIP. THIS IS WELL UNDERSTOOD IN WESTERN EUROPE WHERE THE GOP NOW ENJOYS SOLID SUPPORT.

12. FOREIGN INVESTMENT: IN RESPONSE TO A QUESTION FROM SECRETARY RICHARDSON, SOARES EMPHASIZED THE GOP POLICY TOWARD FOREIGN INVESTMENT WAS ONE OF RECEPTIVITY. THE GOVERNMENT HAS SET UP AN INVESTMENT CODE TO GIVE THE NECESSARY SAFEGUARDS FOR CAPITAL, INCLUDING REPATRIATION. FOREIGN INVESTMENT IS WELCOME IN BOTH PUBLIC AND PRIVATE SECTORS. HE NOTED THAT SOME COUNTRIES WANTED BILATERAL AGREEMENTS IN ADDITION TO GENERAL ASSURANCES ON GOP POLICY. THE FRG, FOR EXAMPLE, WAS NEGOTIATING SUCH AN AGREEMENT TO SUPPLEMENT CERTAIN PARTS OF THE FOREIGN INVESTMENT CODE. A SIMILAR AGREEMENT COULD BE NEGOTIATED WITH THE US IF WE SO DESIRE. SECRETARY RICHARDSON NOTED THAT THE USG COULD NOT OBLIGE COMPANIES TO INVEST IN PORTUGAL BUT THOUGHT SUCH AN AGREEMENT MIGHT BE BENEFICIAL IN TERMS OF STIMULATING INVESTOR CONFIDENCE.

13. ABOVE CLEARED IN DRAFT BY SECRETARY RICHARDSON

BEFORE HIS DEPARTURE.  
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## Message Attributes

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